

The Financial Policy of William Pitt, 1784-1802

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It is the purpose of this paper to discuss Mr. Pitt's financial administration from 1784 to 1801. The subject naturally divides itself into two almost equal parts. The first of these was a period of peace, and extends to the declaration of war, February 1, 1793. The second part, on the other hand, was a period of war, and closes with the treaty of Amiens March, 27, 1802. The problems before Pitt during the peace period were those of financial reform. For many years, either from incompetency or from insuperable difficulties, the ministers had made no attempt at reform. Pitt entered upon this part of the work with all the energy characteristic of an ambitious young man. It shall be our duty, therefore, to recount with some detail the reforms introduced by him: how a clandestine trade was made to contribute to the revenue of the state, how fraud was eliminated from the revenue offices and how the national debt was cared for by an automatic sinking fund. The report of the committee of 1787, which ^{was} the basis of Pitt's estimates is also discussed with some minuteness. More interesting, however, than the reforming of taxes are the consolidation of duties and the treaty of commerce with France. The former bore the mark of simplicity; the latter the tenor of friendship. Still more important, however, than these is the economic progress of this era, or to be more explicit, the Industrial Revolution. To show how the factory system came into existence, how the peasant class became almost extinct and how as a result of these England shifted from an agricultural basis to one of trade, it is our purpose to explain. All these formed the essential skeleton of a gigantic trade, important for the reason that customs duties and excise formed the larger portion of the minister's revenue. For the sake of getting a better understanding of the other taxes one or two have been described with some care, and these

also show the opposition that Mr. Pitt had to encounter. A few errors are next pointed out and the principles of a proper financial system are laid down. It is next our intention to show in what way he neglected to build up a system adequate to meet the financial needs of an emergency. This brings us then, to the second and more eventful period. The financial side of Mr. Pitt's policy during the war we purpose to treat in the light of modern finance. The objection raised against such treatment possesses little strength from the fact that, even though his system were examined in the light of the experience available at that time his policy could hardly be justified. Among others Adam Smith, Robert Hamilton and a little later David Ricardo were the most famous writers of the time. Even Mr. Pitt, as will appear, held correct views with respect to some fundamental principles of finance. With regard to his war policy, then, we shall endeavor to show first, how the minister attempted to increase the revenue by increasing the rate of taxation, and secondly, his method of funding. Equally important and interesting is his treatment of the bank. This institution could point to a history of one hundred years, had developed a sound banking system; but was forced to violate all precedent as will appear from the discussion. "No greater evidence, in truth, could be given of the wonderful power wielded by Mr. Pitt at this momentous crisis, than the influence he exercised and the hold he obtained on the leading capitalists. Often he must have been at a loss how to solve the dilemma of negotiating loans, and it must have been an irksome task to knock so frequently at the doors of the bank, or of the money dealers!"

%Levi p.

When Pitt became prime minister in 1784 English finance was in a deplorable condition. His predecessor had shown neither originality nor tact in the management of public finance, and had turned to the Wealth of Nations for guidance. Lord North, however, failed to grasp the whole truth of this epoch-making work, accepted the suggestion for increased taxation, but not those for either simplifying the tariff or consolidating the duties. Taxation under him was neither equal nor certain, owing to the many abuses that existed in the realm of public finance. About the coast there flourished a clandestine trade which defied the vigilance of all customs officers. The method of collecting and the system of accountability for funds obtained from commerce and the various sources of taxation were such as still further to diminish the net income. No one exactly knew what the state of finance really was; whether the debt was £238000000 or £296000000 lay in the realm of mysterious uncertainty, and whether the £40000000 still unaccounted for would ever reach the national coffers was an equally mysterious question.

One of the first abuses to which Pitt called attention was the curse of smuggling. The committee, whose duty it had been to investigate this matter reported February 11, 1784, that the loss sustained on tea, brandy and wine amounted at least to £2000000 annually. Parliament well understood the importance of this statement and at once adopted a resolution to the effect that this state of affairs deserved the earliest and the most serious consideration. Accordingly on July the 12th the house, after going into a committee of the whole, took up the consideration of a "Bill for the prevention of smuggling." After having argued the question of justice, and what the effect

of additional restrictions upon commerce would be, Pitt's proposition for simply lowering duties was agreed upon as the best remedy for smuggling. High duties ever encourage smuggling; because of the high profits, which act as a tempting bait to all who have an inclination for it.. This was especially true in those days when customs laws were lax and supervision and enforcement inefficient.

Nor was the argument of justice in the discussion of so important a question altogether out of place. The two parties involved evidently ought to receive due consideration. The fair trader, who was earning a legitimate profit, acted within the scope of the law, and consequently contributed to the welfare of the nation. The smuggler, on the other hand, was beyond the reach of law and was depriving the government of her national income. The question, then, was not one of practicability, for everyone recognized this fact; but one of procedure. Pitt argued that this object would be accomplished most effectually by making the profits of both parties equal, a circumstance which would compel the smuggler to abandon his trade; for the reason that smuggling is more expensive than legitimate trading. With this end in view Pitt proposed two means of stopping it: first, by lowering the duties and secondly, by increasing the risk. The duty on tea, for this article was the staple of this illicit trade, was at once reduced from 119% to 12.5%. Pitt estimated that the annual consumption amounted to 13000000lbs. of which but 5500000lbs. paid legal duty. Great was the aversion of the minister's colleagues to let go such an important source of revenue, for its annual income amounted to about £700000; but Pitt was willing to sacrifice all this for the sake of establishing a sound commercial policy. As a matter of fact the prime

minister gained by such a policy. First, the revenue on tea, contrary to expectation and in consequence of increased legal importation only fell off $1/2$, or £340000; instead of following a decrease proportionate to the reduction on tea duties. Secondly, the window tax even though not as productive as the one it was calculated to displace was highly popular, especially among the lower classes. For increasing the risk it was proposed, that all vessels specially built for smuggling and found within certain specified limits of the British coast should be liable to confiscation. The Hovering Act prescribed a limit of two leagues, but thinking that this provided too narrow a belt around the British coast, Pitt proposed to increase it to four.

After having thus provided in some measure for a more reliable income the minister next proceeded to construct proper channels through which the revenue might flow into the national coffers. Hitherto the flow of revenue had been too often diverted from its proper course and became more and more slender as it approached the national treasury, owing largely to the method of collecting, and the manner in which the public money was accounted for to the exchequer. Much had already been done to improve the former. Tax commissioners were paid fixed salaries in order that they might be more independent, and were also compelled by Parliament to transfer the sums in their hands as speedily as possible. But in other lines much remained to be done yet. The public offices for example required remodelling. The navy office, inferior to none but the pay office was the first to receive the minister's attention. Hitherto it had possessed neither responsibility nor an efficient system of accounting. Balances had been allowed to lie and accumulate in the hands of officers long after they quit the public service.

This wasteful practice encouraged still more by the proverbial slowness of the exshequer in passing upon public accounts, and by the old machinery employed, which as Pitt fittingly said was now infinitely too dilatory and too intricate for the enlarged business of the present expenditure. The plan adopted, although specifying nothing ^{new}, from our point of view no doubt was a surprise for the public accountants. Its provisions were simple but important. Every treasurer on quitting his office was now compelled to transfer the balances to his successor, and also close his accounts every year. Hitherto the subaccountants had been the principal obstacle in permitting the treasurer close his accounts; because of the interdependent relations of the two. But to expedite matters little more it was now provided that the subaccountants should be directly responsible to the exchequer and transmit to the navy department only a statement showing how the money had been spent. The examination of public accounts, a matter of no little consequence, also received the minister's attention. This function supposedly belonged to the Auditors of the Imprest, but was greatly abused. The main duties were largely performed by clerks, destitute alike of both sympathy and responsibility. Pitt meant to abolish this office, which had become a sinecure and proposed a new one at once more efficient and more economical. Accordingly on March the 8th, 1785, leave was given to bring in a bill providing for a board of commissioners, whose duty it should be to enquire into the fees, gratuities and emoluments, which had lately been received in the public offices, to examine into the abuses, which existed in the same and to report better methods of managing the business transacted in said offices. This was but a temporary measure, to continue in force till the end of the next session of Parliament. All precautions necessary to make this body efficient

#Parl.Hist.25:298sq.

were taken. The commissioners could send for persons, papers and records, which in any way might further their investigation. To another board consisting of five commissioners most ample powers for auditing public accounts of every department were given. It was this board that displaced the Auditors of the Imprest#

In the next month (April 11, 1785) the question of reducing the national debt was taken up. To inform Parliament on the state of revenue, the minister moved that the net produce for the quarters ending January 5, 1783 and 1784, and those ending April 5, 1784 and 1785 be laid before the house. These quarters were selected in order to show that the revenue was on the increase, and that a surplus was accumulating. In considering so important a question two factors must receive the closest attention: revenue and expenditure. According to Pitt's calculation, the former was about £15,000,000 and the latter somewhat over £14,000,000, leaving a surplus of £900,000. Pitt's object was to establish a sinking fund of £1,000,000. The £1,000,000 still lacking he proposed to raise from additional duties on spirits imported timber, perfumery and hairpowder. "This million laid out with its growing interest," the minister said, "will amount to a very great sum in a period that is not very long in the life of an individual, and but an hour in the existence of a nation.

In a period of twenty-eight years the sum of a million annually improved will amount to £4,000,000 per annum." Practically every member approved the principle of this measure, but many opposed the mode of creating the fund. Foremost among these were Fox and Sheridan. Pitt himself thought that a surplus was the surest foundation for such a fund. In opposition to %Statutes 34 c.19. #Lecky 5:32, 33.

the minister's statement they placed the assertion that there was as yet no surplus, and that the quarters selected were no fair criterion; because the result had not been based upon the average of a number of years. The expenditure, on the other hand, was not based upon the present expenditure, but upon the peace establishment as computed by the committee of 1786. Others tried to accelerate the measure with undue haste. They pointed to France, the natural enemy of England, who had already established a sinking fund, which would in a few years pay off the greater portion of her debt. Since England could not afford to be outstripped by an enemy, they urged Pitt to borrow a million rather than not begin the fund at once. To make the sinking fund unalienable in times of peace, as well as in war, the minister proposed to place the money in the hands of commissioners, to be applied in quarterly buying up stock. Fox seriously objected to such idolatry. A sinking fund, no doubt, should be unalienable in times of peace, for during such times taxation should be sufficient not merely to cover the expenditure, but also provide for a reasonable reduction of the debt. Fox, therefore, sought to improve this measure by moving that in case a loan was hereafter made new taxes should also be imposed not only to pay the interest on the loan, but also restore to the sinking fund what had been taken from it. The motion was agreed to, and on March 26, 1786 the bill received the royal sanction. %

In the evolution of such a theory of amortization Pitt drew heavily upon the theories of Dr. Price. According to Price it was perfectly proper to borrow money for maintaining a sinking fund, in as much as the sums borrowed are obtained at simple interest and are invested at compound. A comparison of the results obtained from the calculation of the two, indeed, %Parl. Hist. 25:419, 1294sq.

strikes one with great fascination. Compound interest, however, is merely a calculation and finds no corresponding part in the order of production. In the economic world two times two do not always make four, but sometimes only one. Pitt as well as Price made the mistake in looking at government stock as productive property. The interest accruing thereon they considered as earnings; while as a matter of fact it was but the produce of taxation. Since the government could not be at the same time both creditor and debtor for its own incumbrances, it became necessary to create a second party; and the legal fiction was, therefore, set up making the government debtor to the commissioners. The stock acquired by the commissioners represented extinguished debt and should have been cancelled; but for the sake of this legal fiction they were considered active obligations on which interest should be paid, until the whole debt was bought up. For the sake of simplicity let us assume a debt of £20,000,000 with a yearly interest of 5%. So long as this debt remains unpaid, the country must submit to a taxation of £1,000,000 annually to pay the interest thereon. But if £2,000,000 of the principal has been paid, that is, if stock to that amount has been bought up, the interest on that £2,000,000 is no longer due to the commissioners, but falls to the government. When at the end of the first year the government pays to the commissioners the £1,000,000 interest, then £2,100,000 of debt will have been extinguished; and £2,100,000 is precisely the capital which would have accumulated for a year at compound interest. The results of the two are the same, but the means are totally different. The £2,000,000 in order to operate at compound interest must be invested in productive property, and the profits instead of being consumed must be regularly added to the principal to form new

capital. Pitt's sinking fund did not operate in this manner; because the government securities were not productive property. There could be therefore no increase in capital, nor could any inherent qualities be ascribed to the sinking fund. During the entire life of the debt the interest on it remained the same and had to be raised by taxation. This fund moreover, was too complex. Precisely the same results might have been reached by appropriating permanently a fixed sum, larger than the interest charge, and by applying the excess to the principal. This excess would increase each year in proportion as the interest charge shrunk. Pitt meant to start his sinking fund with a surplus; but as a matter of fact there was as yet no surplus. The quarters, which he had made the basis of his calculation justified him in saying that the revenue was on the increase; but not in asserting that there was on hand already a surplus of £900000. This increase in revenue was due more to the increase in commerce than anything else. England was once more entering upon an era of commercial prosperity. The values of her imports, which were but £11500000 in 1783 next year rose to £13000000 and the year following to £15500000. To argue that revenue was increasing was therefore perfectly easy; because the customs and the excise duties formed the principal sources of national income. They were estimated by the committee of 1786, for the previous year at £4500000 and £5282000 respectively. It was not here that Pitt influenced by the report of the committee made his mistake. The error was made with respect to other sources of income. The prospective estimates for the next five years as worked out by the committee were altogether too high. But this difference became much less toward the close of this period, ¶Parl.Hist.29:453.

on account of the increased commerce. The deficiencies, on the other hand, fell upon the beginning of these five years. The committee of 1786 had placed the income for the same year at nearly L15400000, but there can be little doubt that they widely missed the mark. % The average of 1786, 1787, exclusive of the land and malt taxes amounted to L12295000, being L501808 less than the sum estimated. For 1786, 1787, 1788, L12468000; being L329000 less than the sum estimated. For 1786, 1787, 1788, 1789, L12653000; being L143000 less than the sum estimated. For 1786 1787, 1788, 1789, 1790, L2879000; being L81837 more than the sum estimated. This report, which was the result of a warm discussion in Parliament plainly shows the trend of revenue during these years, and where the deficiency ought to be placed. But for the sake of proving that the greatest deficiency during these five years was in 1786, let us apply these statistics in different manner. For 1789, 1790, the average was L13496000; being L698000 more than the sum estimated. For 1788, 1789, 1790, L13268000; being L470930 more than the sum estimated. For 1787 1788, 1789, 1790, L13140000; being L342000 more than the sum estimated. For 1786, 1787, 1788, 1789, 1790, L12879000; being L81837 more than the sum estimated. # Judging from these reports the deficiency in 1786 must have been enormous. The results, however, turn still more against the committee, if the land and malt taxes are included. These were estimated to yield L2750000, but produced only L2450000. & A further reason that there must have been a considerable deficiency in 1786 was the fact that this year had been peculiarly unproductive in revenue, owing to the decrease of imports. In sugar alone according to Pitt's budget speech of 1787 there was a falling off of L350000. The mistake of the committee, however, was still more pronounced on %Parl.Hist.26:1014. #Parl.Hist.29:722. &Parl.Hist.24:1351.

the side of expenditure. They had placed the expenses for 1786 at L1440000, at least L2500000 too low. The interest and other charges on the public debt alone amounted to over L9000000, the expenditure for the navy stood at L2500000, and those of the army including ordnance at L2000000. These items alone came dangerously near the amount allowed by the committee, without including the exchequer bills (L258000), civil list (L900000), militia (L91000) and miscellaneous services (L74000). The two expense items in which the committee made their most serious mistake were the navy and the army expenditures. For the former they allowed L1800000 and for the latter L1600000, exclusive of ordnance charges. But these two expense items, although varying somewhat from year to year never fell during this period to this estimate, excepting perhaps the expenditure of the army.

In 1790 the expenditure stood at L16798000. The committee had allowed for the same year L15912000, exclusive of the militia which stood in 1785 at L91000, making a total of L16822000. Sheridan argued that the expenditure, since 1786 exceeded on an average the calculation of the committee by about L1000000 yearly, which had been defrayed by extraordinary aid. But since the expenditure allowed was sufficient it follows that the deficiency occurred in the beginning of this period. The revenue of 1790 also showed a remarkable increase. The committee had placed it at L14072000, exclusive of the land and malt taxes, which stood at L2600000, making a total of L16672000. This increase in revenue was largely due to the increase in commerce, a circumstance, which the committee did not and could not foresee. The imports rose from L11000000 in 1783 to L16000000 in 1790, and the exports from L12000000 to L17000000.

Levi p.63.

A brief account of England's commercial history, however, is necessary for a complete understanding of these facts. In the economic history of England no period is of greater importance than the one included within 1793 and 1815. On the continent this was a period of war, and some of the greatest changes that ever occurred in political lines were being attempted. In England, on the other hand, a great revolution, economic in its nature was disturbing the very foundations of her democracy and society. Economists are generally agreed as to the great importance of this period in the development of her Industrial History as well as its bearing on her political system. It was essentially a period of a far-reaching economic revolution, a period of transition from the old systems to the new. In industry from the domestic system to the factory system, in commerce from protection toward free trade; in agriculture from the open field system to the enclosed one and in politics from political slavery toward political liberty. In short the whole nation was in a process of transition, shifting from the solid agricultural basis to the more unstable basis of trade.

But in order to discuss this period more intelligently we should give ourselves more elbow-room, and extend its time limits. The years between 1760 and 1830 have been characterized by economic writers as the Industrial Revolution. The latter half of the 18th century was especially noted for the intense activity of the English mind, as is shown by the many inventions made, and the practical application of these to the various industries. Such men as Arkwright, Cartwright and James Watt, and a host of others each one contributing his share, became the pioneers of this economic revolution, and made it possible to break away from the domestic system. These inventions acted like a magnet on capital, which was now concentrated for various

purposes. Laborers were put to work for regular hours, where the machines were placed. Thus grew up factories in our modern sense. These changes in manufacture and labor came about earliest in the textile industries, and increased their output of manufactured goods by leaps and bounds. In 1764 the cotton imported into England amounted to only 4000000lbs., an insignificant figure, indeed, but by 1841 it had already reached the astonishing sum of 489900000lbs. Indeed, so rapid was this increase that in the fifteen years following the application of steam to the cotton industries, 1785, the cotton trade had trebled itself. With this enormous progress in production there came likewise a revolution in distribution. A concentrated industry like the cotton industry would have been impossible unless it could command a world market. To this end great changes were made. On sea English ships plowed the ocean everywhere. In England itself extensive internal improvements were made, canals were dug, roads improved and railroads constructed. Other industries again were forced to seek more convenient quarters. As a result the woollen manufactories of the eastern counties decayed and were superseded by those of the north. The iron industry left the woodland counties of Surrey and Sussex and found a new home in the Midlands, Yorkshire and South Wales, where coal was plentiful and cheap. This change produced the most far-reaching results in the distribution of population. The counties in the south lost their people, while those of the north, where the new industries were being established greatly increased in population. On the whole the industries capable of tremendous extension were most affected by the new inventions. The new appliances at first tended to raise the wages of the spinners and the weavers, owing to the great prosperity it brought to the

trade; but with the introduction of the factory system fell again.

But there was still another great change just as important and as far-reaching in results as the one mentioned above. This was the Agrarian Revolution, which caused the extinction of the peasant class. How these yeomen were dispossessed and how large farmers took their places is one of the most interesting features in the history of English agriculture. For generations they had been able to carry on a precarious existence only; because of the antiquated methods of farming and on account of their indolence. The open field system was to a large extent the cause of the lack of progress in agriculture, and at the close of the 18th century still three fifths of the cultivated land was tilled in this way. A system which had survived unchanged since the Norman conquest might be supposed to possess real advantages. But what had made it long-lived far more than the intrinsic advantages was the impossibility of changing it. Reform had to be wholesale or not at all. Happily here too the reformer was not wanting. Arthur Young took it upon himself to destroy the old system by urging on enclosures, which after being once started proceeded with remarkable rapidity. During the reign of George II. 226 private acts were passed in thirty-three years providing for enclosures. During the reign of George III., that is between 1797 to 1820 especially, the number increased to 1797, besides the general enclosure act of 1801. Unlike the enclosures of the 15th and 16th centuries, which had been in the main for sheep farming, these were for a better system of agriculture. The result of all the hardships wrought by this transition was that the yeoman lost his land. Some went to the cities, but the larger number became wage-laborers on farms; because they could not hope

to compete with the landlord, who had capital at his disposal and therefore farmed in accordance with the best methods known. Another reason for the decay of the peasant class was the fact that land was a good investment, even better than money. It also gave the landlord social prestige. He could neither sit in Parliament, nor vote in the county unless he was a man of some means. For this reason, then, many such ambitious men were seeking to qualify as country gentlemen. He therefore, bought out the freeholder, who was glad to sell, because of the high prices that land commanded during the Napoleonic wars. But this was not all. The landed gentry after having thus qualified next proceeded to maintain the price of corn, which was subject to the most extreme fluctuations. From 51s per quarter in 1798 it rose to 120s in 1801, then dropped to 58s in 1803 and after several minor fluctuations reached the high watermark of 126s in 1812. By 1815 it was again down to 66s, but rose once more to 96s in 1817. No doubt a succession of bad harvest in 1800, 1804, 1809 and 1816 contributed much toward such unsteadiness in value, but a cause equally severe on England was the closing of the Baltic; because she had ceased to be self supporting and was importing her foodstuffs.

The two great measures of Pitt no doubt were the commercial propositions relating to Ireland and the treaty with France. The original propositions, which were accepted by the Irish Parliament would have established complete free trade, commercial equality and reciprocity between England and Ireland. The scheme was eminently liberal and wise; but English manufacturers compelled Pitt to modify the original propositions to such an extent as to endanger thereby the independence of the Irish Parliament. Preferring independence to commercial advantages they chose to reject the amended measures. With the

treaty of France, however, Pitt was more successful. February 12, 1787, the house resolved itself into a committee of the whole for considering the commercial treaty with France. The provisions of this celebrated treaty were as follows: the wines of France should pay no higher duty in Great Britain than those of Portugal; the duty on French vinegar in Great Britain should be reduced from £67, 5s, 6d to 7s per gallon; the duties on hardware, cutlery, cabinet ware, steel and copper should not exceed 10% in either country; the duties on cotton and woolen manufactures should not exceed 12% in both countries, excepting those mixed with silks, which were prohibited on both sides. Porcelain, earthenware and pottery should pay 12% ad valorem. Such were the most essential terms of this famous treaty. Pitt contended that from a commercial point of view no treaty could be more advantageous. The two countries supplemented each other in a peculiar manner, because each one had its distinct staples and produced in abundance what the other wanted. France had an advantage in soil, climate and in the amount of natural produce. The wines and the brandies were peculiarly her own productions. Great Britain, on the other hand, was superior in manufactures, especially woolen articles. Not till the soil of France was so altered by the hand of nature as to produce the raw material could France ever hope to compete with England. The articles of saddlery, of pottery and of hardware were equally commodities of England, and could withstand foreign competition as long as bark, clay and coal were the productions of the English soil. Pitt argued further that the treaty would be beneficial in a commercial way, and at the same time reduce the temptation for smuggling. The French wines found their way to England, in spite of the high duties and the bitter animosities between the two nations. Besides the large illegal import in this article of

consumption, between 300000 and 400000 gallons of French brandy was also smuggled in every year. All this would add considerably to the national income if imported in a legal manner.

But in spite of all the advantages the treaty met with the keenest opposition, especially in the house of Commons. Here Pitt had arrayed against himself a well organized opposition, including the best men in Parliament, such as Fox, Burke, Sheridan, Francis and Henry Flood, a thorough-going mercantilist. It is a mistake, however, to think that this organized opposition in any way reflected the opinion of the constituents. Public opinion was with Pitt and generally speaking was in favor of the treaty. It did not manifest itself in loud clamors for this measure, but in a mute eloquence, which, especially that of the manufacturers might well be construed in favor of the Anglo-French treaty. "In four or five months only one petition of importance came up, not objecting to the treaty, but merely asking for an extension of time to consider it." This acquiescence startling as it may seem, especially when compared with the loud clamors made against the treaty of Utrecht, may however be explained in two ways: the judicious procedure of Pitt and the changed economic conditions. To tickle the vanity of those who still clung to the mercantile system the minister decided to proceed rather cautiously against the treaty with Portugal.

For a century or so the two nations had been bound together by commercial ties, until the last of these the Methuen Treaty had reached the enviable position of being looked up to as the commercial idol of England. But in spite of the great interest attached to this treaty, it was now losing its importance, especially if compared with the other great channels of British commerce. The real significance of the trade may readily be obtained from the fact that during the four years preceding this

treaty the value of the English exports to Portugal fluctuated around L560000 and the English imports from the little kingdom around L400000. These statistics become insignificant when compared with the average British imports of L13000000 and exports equally large. Pitt urged all these points with great force, but at the same time was politic enough not to supersede the Portuguese treaty all at once; but to give the French terms equal to those Portugal enjoyed.

But besides this there was yet another condition greatly in favor of this treaty, namely the economic change which was sweeping away the rubbish of the old mercantile system. The manufacturers with whom Pitt had to deal were in a way entirely different from those who flourished under the mercantile system. There was now a numerous and growing body of men possessing capital who already recognized the disadvantages arising from high duties, and who were now agitating for a repeal of the cotton duties. There was next the factory system, still in its childhood; but which was already successfully replacing the domestic system. Such was the activity along this line that of the 140 cotton mills in existence nearly two thirds had been built within the last five years. A market for their products, therefore, became a necessity.

To Fox, however, it meant something entirely different. To him this treaty signalized the beginning of a new system, in which the established doctrines and principles were to be exchanged for something new and untried. He denounced all inclination for entering into commercial relations with France, especially if in any way it affected England's connection with Portugal. The reasons urged in support of this policy were political as well as commercial. From the political point of view the loss of Portugal might disturb the balance of power; while from the

commercial viewpoint, England could not dispense with Portugal; because of the raw material imported from this country and from Brazil. This was especially true of the cotton industry, which depended for its raw material upon France, Portugal and Brazil.

Each one of the members of the opposition had his special point of contention. Francis for instance argued in behalf of the navy. "If a commercial treaty of any kind", he said, "were ever so advantageous in commercial ways, yet if it had a tendency to impair the navy it ought to be abandoned. A commercial intercourse with France he argued further will be carried on in small bottoms, while a remote market requires large vessels, gives employment and experience to our seamen and is in truth the nursery on which our navy depends." France, on the other hand, impelled by a laudable ambition, was trying to wrest the carrying from England. With this object in view she had already made numerous concessions in 1786 to the United States, concessions for which not a single reciprocal measure was given. What else could such a policy mean, but that France expected a monopoly of that trade, which England enjoyed. France, therefore, was too near for him. Since no ingenuity could in any way increase the actual distance between the two nations other causes must be sought for in order to keep them as far apart as possible. In support of this statement he urged that France was morally corrupt, and that too close relations would result in contamination. "We will be civilized out of our virtues and polished out of our character", he said.

But in spite of all the arguments that the opposition could bring forth the treaty passed, and the ease with which it passed through the principal stages was an indication of the change, which had taken place in public opinion. The commercial class saw the advantages of an extended market, such as

the French nation, consisting of 24000000 people would give. For this reason the opposition practically had no support in the country. The effect on the trade was immediate and such as the English had expected. In 1786, the English exports to France were but 13000000 livres. In the course of the next year they rose to 49000000 livres and in 1789 they stood at 60913000 livres. The French exports to England did not increase with such astonishing rapidity. In 1787 they stood at 34200000 livres, the next year at 31100000 and in 1789 at 35100000 livres. These statistics seem to justify the disappointment of the French manufacturers in regard to the treaty. At Abbeville, Amiens and Lille there was, indeed, much violent opposition. At Rouen the cotton manufacturers complained that they were unable to compete with the English.

But the influence of this treaty was not altogether confined to these two countries. It led to other treaties; between Russia and France, the United States and Prussia and between Austria and Russia. In England besides being a decided break away from the mercantile system it was also the first step toward free trade, and led also to the reorganization of the customs duties, one of the most famous measures before the French war. #

In his budget speech of 1787 Pitt strongly advocated the consolidation of duties, a measure, which may justly be designated as one of the most important in England's commercial history. & He abolished the existing duties and drawbacks, and substituted for them single duties on each article. All duties now flowed into a common fund, called the consolidated fund. Closely connected with the customs were the sinecures, not less than 196 in number. They were offices granted by the Lord Treasurer, #Parl. HIST. 26:342sq. & Lecky 5:35.

and their united income aggregated L42000.% Pitt refused to fill them when they became vacant, and when 150 had fallen in he abolished them altogether in 1798.

The abuses in postal revenue were of another kind but equally glaring. Every member of Parliament was allowed to frank as many letters as he pleased, by writing his name and the word free on it. This privilege was greatly abused. Members of Parliament were paid by great mercantile houses for franking their correspondence, and thus deprived the government of an annual income of L170000.# The new rules passed provided that no member of either house should frank more than ten letters daily, and address them in accordance with certain specified rules. These restrictions proved somewhat inefficient in the beginning, but being carried to a great extent this source at last became productive& Rum yielding a revenue of L32000 in 1778 scarcely brought L1098 in 1783.& Pit, however, made them productive again by transferring them from the customs to the excise list. This means was resorted to quite frequently, and must have been an efficient remedy for smuggling. In 1804 the net produce from customs was L7207000 and from the excise L16930000; while in 1784 they were nearly equal."

Amongst the most famous early taxes levied was the shop tax. In the second year of Pitt's ministry they began its consideration. From the very beginning it was stigmatized by the opponents as being partial and oppressive; because rent was no fair criterion of one's trade. Pitt also realized that rent was not a fair measure, but maintained that it was the best obtainable. He moreover argued that the shopkeeper could ease his shoulders by shifting it on to the consumer, and that the city of

%Rose's Rept.pp.9,10 #Lecky 5:29. &Adolphus 4:124. &Stanhope 218.
 "Parl.Dec.1:1103.

London in all probability would pay more, not because the tax operated in a partial manner, but because there was more taxable property in and near that city. After considerable agitation the bill passed by a vote of 111 to 75. Experience, however, soon proved that the tax was direct and could not be shifted. Accordingly most of the great cities sent in petitions against the tax all complaining about its incidence. Pitt, however, tried to clinch the argument by resorting to his favorite theory of price. "Prices," he said, "do not depend on cost alone, but also upon other incidental expenses of the business." The shopkeepers, therefore, might easily advance the price and indemnify themselves from the tax as well as from any other charge. Competition in trade was not so much a competition to undersell others as to sell at a rate, which would procure the dealer a proper living profit. Profit again depends on his social position; a superior trader, therefore, could not estimate his profits by those of the inferior one; because they must be in proportion to the several capitals. Thus if the superior trader ventured to undersell the inferior one the profits of the former would become diminished, which would effectually prevent him from doing so. It was further argued that rent was no fair criterion to measure trade by; but Pitt contended that it was the fairest method by which it could be ascertained. If trade sold more than certainly his shop was more valuable and ought to bear heavier taxes. % By 1787 the clamor had become so violent that Fox rallied to their support to help lift the burden from their shoulders. He immediately moved for a repeal of the tax; and showed that it was oppressive. According to his statistics the whole tax amounted to £59000, Of this sum £17000 was paid by Westminster alone £12000 by London and £12000 by the adjacent villages. The county of Middlesex, accordingly, %Parl.Hist.25:1174.

paid £41000 out of the whole amount. The motion, however, was defeated by a considerable majority (vote, 183 to 147)%. Next year in March he repeated his motion. Time had now conclusively

shown that the minister had been mistaken in regard to the incidence of the tax. The tax moreover, fell heavier upon the lower classes so that a man with a small capital and a limited business paid more than his opulent neighbor. To make this fact still more impressive he cited as an example the fact that in Bath there were two poulterers, living in the same street one paid 19s, while the other whose capital was not near so large nor his business so extensive paid £5,4s. But in spite of all argument the motion was lost once more by a vote of 141 to 98. The agitation, however, did not cease, and in April of 1789 he moved again for a repeal, saying that Westminster paid more than London and that both together paid more than 3/4 of the whole. The tax moreover, was not productive. The original estimate made by Pitt was £12000, but at no time had it produced more than £59000, and was now on the decline. In Westminster alone it had fallen off £4000 last year. Leave was given to bring in the bill, which was now repealed without opposition. Another conspicuous tax was his income tax of 1799. All incomes above £200 paid 10%; while for those below £200 but above £60 the assessment was made upon a graduated scale. Incomes below £60 were exempt. The act for this tax contains 124 lengthy sections and is entitled "A plain, short and easy description of the different classes of the income tax, so as to render it familiar to the meanest capacity." From this source Pitt expected £10000000; but a disappointment in this respect compelled Pitt to make a fifth addition to the duty on spirits, and a fourth on tea.

Pitt's scheme of taxation has been severely criticized
%Parl.Hist.26:1022.

for the reason that nearly all of his taxes were laid on consumption, trade and on manufacture. Whatever defects there might have been, it was nevertheless a great improvement upon the old system. To every tax-system objections can be raised; the problem is to find the least objectionable and the most effective system. Every system of taxation is a historic growth. It is relative to the circumstances of the country; its resources, industries, the character of its people and the form of government. A well balanced system, combining direct and indirect taxation, comes nearest to realizing this end. Neither one of these two classes, however, possesses any inherent qualities. Whether a tax is good or bad does not depend upon the fact of belonging to either one of these two classes; but upon the kind of a direct tax or indirect tax it is. Each one of the two classes, it is true, has its advantages. Indirect taxation for example has a corrector in smuggling, and becomes unproductive, whenever the limits of productive taxation have been exceeded. Direct taxation, on the other hand, has no such corrector, consequently evasion must be resorted to when they become oppressive. Taxation in Pitt's time was mainly direct if we exclude the customs and excise duties. But this does not necessarily condemn it. The great defects of this system arose mainly from the kind of taxes selected, and from the frequent changes made. The latter had a tendency to cause economic disturbances in production and in distribution.

But the greatest defect of his system was that it possessed no elasticity. The necessity for this is selfevident. But before entering upon this phase it becomes necessary to give a brief account of the state of finance just preceding the war. The public funded debt stood on January 5, 1793 at

L238231000, exclusive of the long and short annuities, which amounted to L1373000. Stocks to the amount of L28677000 had been purchased by the commissioners, and annuities to the amount of L119880 had fallen in, reducing the actual debt as given above to L209553559, and the annuities to L1253670. The debt created since January 5, 1793, amounted to L216898000, and the annuities to L283266. The whole debt at the close of the war, exclusive of the imperial debt stood at L426452000. The annual charge on the old debt was in 1793 above L9000000; while during the war a charge of L8000000 more was added. Besides the funded debt there was yet an unfunded debt of L10000000, when the war broke out. The expenditure during the war, 1793 to 1801, rose from L12000000 to L43000000, exclusive of the annual charge on the public debt. The net income for the same period increased from L17869000 to L36320000, causing a deficit for every year. This excess of expenditure stood in 1793 at L3397000 and in 1800 at L15564000. The imports and the exports of 1793 stood at L19000000 and L18000000 respectively. The exports for 1793 were largely native products, and these stood at L13892000. By 1800 they had risen to L25699000. Besides this England developed during this period an extensive carrying trade, and practically ^{became} the commercial emporium of the world. In 1786 the value of foreign merchandise exported from Great Britain amounted to but L4475000. But by 1800 they had increased to L18847000.

Pitt no doubt had discovered by this time that public finance was not controlled by the same principles that govern private finance. A private person generally speaking manages his expenses in accordance with his income, that is income determines expenditure. In public finance, however, this principle

is exactly the reverse, and income no longer determines expenditure, but is determined by expenditure. The reason for this is simple. The two accounts which enter into every budget are income and expenditure, and of these two the latter is the more refractory to deal with, especially in war. Income too is to some extent beyond the control of the financier, especially when the larger bulk of it is made up from indirect taxation as was the case in Pitt's system. Indirect taxes of all sorts depend for their efficiency upon the general trade of the country, and the revenue arising from customs duties is determined by the amount of dutiable goods imported, which in turn again depends upon the character and the extent of the trade. Thus elements of uncertainty are introduced, which at times are beyond control, especially when smuggling and other abuses have crept in. But when a system of taxation is thus afflicted, vigor and health may be imparted by instituting proper reforms. This will make income more certain, and having been made so it will likewise respond to any reasonable demand that may be expected from it. The question, then, is not how to keep expenditure within income, but how income may be brought up to meet expenditure. In the beginning of his administration Pitt tried to apply the principle as laid down for private finance, and endeavored to make expenditure conform to income. To accomplish this, or to make the two meet he found it necessary to underestimate expenditure and overestimate income. Thus they met in theory, but not in practice. No principle could insure deficits better than the one he tried to apply. After the committee had formed a peace establishment, the minister took it as his basis for estimating the expenses of the government. But at no time did expenditure fall to this level, and it might safely be said had it not been for the steady increase in revenue derived from

commerce there would have been a deficit every year. This principle of Pitt as so many of his financial theories only needed to be reversed in order to be sound. Had he underestimated income and overestimated expenditure, instead of doing exactly the opposite, Pitt no doubt would have come out all right. It is not the intention here to advocate the accumulation of a large reserve available in war. No one but the financier understands more clearly how delicate a problem the management of these two accounts is and how little playroom sound financiering allows, within which income and expenditure may fluctuate. In England, however, there was no necessity of keeping the two thus close together, and a good surplus would in no way have disturbed her industries. England had just emerged from a great war, when Pitt ascended the ministerial throne, and a surplus could properly have been applied to the reduction of the large public debt. But with the year 1793 a change in the established financial policy was caused by the French Wars, which altered considerably the two budgetary accounts. War not only increased greatly the expenditure, but also made it still more uncontrollable. Income, on the other hand, was extremely slow in meeting this increased demand. Pitt no doubt had good reasons for believing that this increased demand would be likely to continue and therefore should have increased taxation. But even if new taxes had been levied to meet this increased expenditure he would have been compelled to resort to other means; for new taxes cannot be depended on for meeting the expenses of an emergency; because they are not at once productive. But why not raise upon the existing system? This may be done with success provided the fiscal system has been framed in such a manner as to make this practicable. Such a policy presupposes above every-

thing else a broad system of revenue and a rate of taxation considerably below the maximum rate. A fiscal system embodying these two characteristics may in an emergency be made to respond to the increased needs by simply raising its rate of taxation. But this depends altogether upon the system previously established. A minister, then, who considers the future as well as the present will in times of peace establish a fiscal system which by raising its rate of taxation may be made to respond ^{an} to emergency. No war, therefore, can be managed successfully in a financial way, unless a proper basis has been laid during peace.

Since good financiering in war is only possible if an adequate fiscal system has been established in peace, it is but proper to examine Pitt's system somewhat more closely. Pitt at all times showed great aversion toward the imposition of heavy taxation. In the first year of his administration he imposed new taxes, amounting to but L400000, and his constant aim hereafter was to avoid new impositions as much as possible. In his budget speech 1787 he took special pride in announcing that new taxes to the amount of but L1500000 had been imposed. In 1790, he said, that he had no new taxes to levy. According to his notion everything had been provided for: the running expenses were covered by taxation and the national debt was rapidly paid off by the sinking fund. There was, therefore no occasion for new taxes and for providing an adequate fiscal system; because Pitt never for a moment entertained the idea that his prime minister ship would be disturbed by a great war, until he was at its brink. For these reasons, then, he neglected to fulfil the first requirement of an adequate fiscal system. Mr. Pitt, however, resorted to the other expedient, namely, the extension of the rate of taxation upon the existing system. Various taxes were raised until they became abnormally high. The window tax for example

was increased from L20 for houses having 180 windows or more to L93. Duty on tea from 12.5% to 95%. But the difficulty encountered here was that his fiscal system was entirely too narrow, and therefore little was accomplished; because the second requirement could not work for want of the first. Customs duties excise and stamp duties at least made up three fifths of the entire revenue, whereas the remaining two fifths was obtained largely from a number of taxes, not one of which yielded over L500000, excepting the land and the malt duties. Among other taxes which Pitt might have imposed in the very beginning was the income tax, for personal consumption alone would have been affected by increasing its rate.

It lies then in the purpose of this system to establish one so broad as to meet the ordinary expenses during peace, and yet admit of a gradual increase in war. Since Pitt had not provided adequately for such a system it devolved upon him to make loans. But here too the minister met with a great difficulty. Frequently it is said that the true war chest is a healthy state of industries, and that the key for opening this chest is unblemished credit. The former was in existence in abundance but the latter was sadly lacking. That there was plenty of capital is proven by the facts that the value of exports of British produce and manufactures rose from L11000000 in 1786 to L25000000 in 1801. Besides this England exported an enormous amount of foreign merchandise, rising from L4000000 in 1786 to L18000000 in 1800. But Pitt rather than apply this key of unblemished credit to such a war chest, threw away the key, smashed the chest and robbed its contents.

Mr. Pitt generally speaking endeavored to get control over this capital in two ways; first, by making use of public credit

and secondly, by bringing the Bank of England under his control. But before entering upon these subjects it might be well to point out the three ways in which the financial side of a war might be managed. In the first place the entire war expenditure may be drawn from newly levied taxes, and loans are required in anticipation of the tax receipts until the new revenue system is becoming efficient. This method was entirely out of the question with Pitt, because he did not impose sufficient taxes. The net produce of the taxes imposed by him between 1792 and 1799 amounted to but £7272000, and by far the greater amount was imposed in the latter years of this period. The loans for 1794 and 1795, on the other hand, were £4500000 and £12000000 respectively, for which practically no taxes were levied in anticipation. In the second method the entire expenditure is met by the proceeds from loans. In this case sufficient new taxes must be imposed to meet the interest upon loans. The third is a combination of the two. In the beginning Pitt no doubt meant to carry the war through by loans, impose no more taxes than was absolutely required to meet the interest on them. Later, however, he was forced to resort also to considerable taxation. The receipts from loans contracted for up to 1801 amounted to £14700000. Now there is no great danger in resorting to loans, provided public credit is in such a condition as to make it profitable for the government to borrow. During the peace period securities constantly rose so that by 1792 the highest stood at 95 and the lowest at 75. But a rapid fall now set in and five years later the highest stood at 56 and the lowest at 47. This was largely due to Pitt's reckless borrowing and to the fact

that credit was not resting upon a firm basis. An adequate financial policy will place public credit on so firm a basis and

guard it so jealously, that the government will not be called upon to suffer ruinous discounts in the placement of its securities. Pitt's loans fell far short of this principle. In the eleven loans made entirely in 3% stock, L158650000 were advanced to the government in exchange for L259215000 of 3% stock making the interest L4,18s% on the sum actually advanced, or at the rate of L100 of stock for L60,2s of money.% The greater number of loans were made in 3%, which evidently was satisfactory to both Pitt and the lender. They appealed to the former, because they could be made on easier terms, and to the latter because of the gain, if stock rose. The average rate at which 3% stock was created between 1793 and 1801 was L57,7s,6d of money for L100 of stock, and the average market price was L61,7s,6d of money for L100 of stock. The loss to the public upon the additional sum borrowed in order that it might be redeemed during that period, which was L49655000, amounted to 4.5%, or L2234500. For the loans of 1795 in which the government received L180000000 a capital of L210000000 3% stock and L45000000 4% stock was funded, exclusive of a long annuity of L58500. But the loan of 1798 made when public credit was lowest was still more ruinous. For every L100 advanced to the government the lender got L175 3% stock, L20 4% and an annuity of 6s for nearly sixty-three years, or in other words for every L100 advanced the government paid an annual interest of L6,1s, exclusive of the long annuity of 6s.# Now it is evident that a financial administration that permits the credit of a wealthy nation to decline so that its obligations fall nearly 50% can hardly be called successful. Now there is no serious objection in using public credit provided it is not abused. In the beginning of %Ed.R.34:316,317. #Ed.R.47:78.

the war moreover, it is perfectly proper to make use of it, but, as the war progresses and expenditure increases taxes should be forced into prominence. Several conditions favor borrowing in the beginning of a war. The necessity for a temporary loan is always greater in the beginning of a war than later. Then again, the change from a state of peace to one of war points in favor of a loan. If a minister succeeds in bridging over this chasm, and is successful in establishing business on a war basis he may extend his fiscal system with confidence. In England, however, there was no need of such cautious procedure; because business rested upon a far firmer basis than public finance. By 1797 practically all enthusiasm for public stock was gone and yet it was at this time that two of his largest loans were made. The placement of these two loans of 1796 and 1797, each one over L42000000 marks the climax of Pitt's use of Public credit. The minister was now forced to make new impositions because he had practically exhausted the power of credit. In 1797 new taxes were therefore imposed on all branches of revenue to the extent of L3400000. The next year a convoy tax on imports and exports was levied yielding L1500000, making a total of L5000000. In the same year the Assessed Taxes also were trebled. Three times previous to 1797 had he raised them by percentage, but in 1798 when a large addition to the revenue was required he increased them enormously. In his budget speech of 1797 Pitt estimated them at L2700000, and he thought that they would not fall far short of this estimate. The net produce after trebling them was about L5000000, or an increase of L2300000. Adding the latter to the amount named above we have a total of L7300000, exclusive of the tax on armorial ensigns

levied in 1798. But the receipts obtained from new taxes for this period, 1792 to 1799, amounted to but L7272000. It follows therefore that no new taxes were levied at the outbreak of this war. In 1793 he proposed to provide for the remainder by way of loan. In the next year he repealed several taxes such as the glove tax, the tax on births and burials, and imposed additional ones on spirits, bricks, tiles, glass and paper. The current expenditure, on the other hand, was increasing with great rapidity, and rose from L767000 in 1793 to L39439000 in 1800. The demands for revenue were therefore exceedingly heavy, and new sources of revenue should have been opened at the very beginning of the war, which would have allowed sufficient time for them to become productive and would have strengthened public credit.

But there was yet another factor that played an important part in English finance, and that was the Bank of England. The importance of such an institution is well understood. It deals not only in money; but also in credits, and by far the larger portion of her business are credit transactions. Pitt abused this institution and in so doing also abused credit. Instead of given it the consideration which it deserved during this financial stringency he brought this institution under his control and dictated to it in the most unscrupulous manner.

Both Baring and Tooke agree that the circumstances of the embarrassments which led to the panic of 1797 began in the latter part of 1795. The natural conditions of the year were of course beyond the control of the minister. In the cold spring and the wet summer lay the germs for the panic. The policy of the bank on the whole had been a conservative one; but such moderation was disturbed now and then by the government when in need of funds. In spite of the close relations between the bank and the govern-

ment the directors succeeded in establishing the custom of limiting the advances to the government to about £30000. In the American War they had been unable to hold to this rule and consequently this limit was greatly extended. Such procedure without the sanction of Parliament of course was criminal, and an appeal was therefore made to Pitt to provide for this security. Pitt agreed to introduce a bill, establishing a new limit at £100000 and promised to refund the balance. The bill was quickly rushed through Parliament, but without any limit whatever, because its absence would permit him to extort from the bank any amount he pleased. The government already owed the bank over £21000000, and this practically meant a long time investment, for a bill for paying at least a fair portion of this debt had just been defeated by a vote of 45 to 185. How despotically Pitt exercised this newly acquired power appears from the frequent demands made upon the bank; caused to a large extent by his policy of subsidies. The money scattered abroad by him amounted to £2000000 in 1793, £8000000 in 1794, and £11000000 in 1795. The people at home, on the other hand, might feed on treasury bills. The directors recognizing the dangers of such a policy decided not to allow the advances on treasury bills exceed £500000, and the minister solemnly promised to bring them within this limit. This, however, was not done and by June they had more than doubled; while for the next two months £1600000 more was demanded. Thus the bank was forced to extend its issue contrary to all principles of sound banking. In 1794 the bank issues already exceeded £10000000 and by February, 1795, they stood at £14000000. The blame for thus violating the most important principle in banking lies all with Pitt. Had his

Banking in all Nations, see Great Britain.

financial policy been a sound one it would not have been necessary for him to resort to such means. For an adequate fiscal system will not be forced to use treasury notes, except as a convenient method of its taxingsystem.

We have already seen from Pitt's conduct towards the treasury bills that he was not bound by any very scrupulous notions of honor. But now he departed still more from the right path, for notwithstanding all his solemn promises specie was still sent abroad in a secret manner. In November he made fresh demands upon the bank for £2750000 on the security of the land and malt taxes of 1797; another indication of poor financial management; because a financier who has jealously guarded public credit can borrow on its strength, and need not mortgage taxes.

The above amount was obtained on the condition that the treasury bills be paid. Pitt took the money, but never paid the bills. The year 1797, opened with the most gloomy apprehensions and depressions. Both houses now appointed committees to examine the affairs of the bank, and it was found that her outstanding obligations were £13770000, while her assets stood at £17597000, leaving thus a surplus of £3000000. The bank no doubt would have been able to sail through the financial flurry safely, if it had been able to convert its outstanding securities into cash. Since the demand for specie is great during a panic it is all important that her investments be such as to make such a policy practicable. Had the bank instead of investing in government stocks invested in commercial paper it would have been in a position to combat this panic more successfully. Stocks and bonds are never equal to commercial paper as a proposition for investment; because of the time element. Stocks and bonds are long-lived securities, while commercial paper runs o

for but few months. Then there is yet the further objection against stocks, which lies in the fact that they fluctuate too much, even though they be government security. The bank having been forced to invest heavily in government stocks through the policy of Pitt, was now forced and authorized to suspend specie payment. This of course resulted in the depreciation of the treasury bills and afforded an additional blow to public credit. Now in the placement of securities no institution is of more importance than a strong bank. When the war commenced the bank and public credit were in a good condition, and securities might have been placed somewhere near par. It follows therefore that if Pitt meant to carry on the war by loans he should have made a large loan right in the beginning. The minister, however, did exactly the reverse. The loan of 1794 was but £4500000; while that of 1797 was over £2500000. Pitt's war policy has been characterized as extravagant and justly so. For Pitt undertook not only to manage English finance with all its incumbrances, but to finance the whole war. The result of it all was that in the middle of the war he came out with a stranded treasury.

Mr. Pitt thus placed himself in a critical position. Various attempts have been made to exonerate Pitt on the ground that he was compelled to do what he did. This no doubt was true; but the circumstances which forced him to adopt such a policy were not altogether thrust upon him in an unexpected manner. Had he succeeded to the chancellorship at the outbreak of the war the argument above might be urged with some force. But Mr. Pitt had nearly ten years of peace, and therefore was the maker of the circumstances that surrounded him during the war.

If during these ten years he had established the system advocated above he would not have been at the mercy of the lender. They saw that he had handcuffed himself, and consequently dictated terms in the most unscrupulous manner. These money lenders besides this had yet another point in their favor, namely, the usury laws, which made 5% the maximum legal rate. Now in the placement of bonds it is all important for a minister to possess ample powers and Mr. Pitt either should have placed himself in a position so as to be able to borrow profitably, or should have resorted to taxation. Even after France had declared war in 1793 no new sources of revenue were opened as has been shown. In 1793 he imposed £300000 of assessed taxes and increased somewhat the duties on spirits. The year following £1000000 more was obtained from additional excise duties, and in 1795, £1600000 by additional duties on wine, tea, coffee, fruit, taxes on insurance and hair powder. Not a single source was opened till 1796, when the legacy duties were imposed. This, however, was the beginning of a remarkable change in Pitt's financial policy. The whole amount of taxes raised during the four years, 1793 to 1797, was £70000000, or a yearly average of £17000000; while for the period 1799 to 1802, £134750000 was received, an increase of 92.5%. This negligence to create new sources of income at the outbreak of the French war is difficult to explain. It becomes still more remarkable when one remembers that for the Nootka Sound Armament, when but two British vessels were seized by Spain for the sake of asserting her claim to the coast of North America, a larger amount of taxes was levied than for the year 1793, after war had been declared. Besides these two contentions, necessity and that he was at the

mercy of the lenders, two arguments not at all convincing if considered in the light of the fiscal system established before the war; Mr. Pitt's funding system has also been defended on the ground that it lessened the interest charge. This is true to some extent, 3% stock requires less interest than 7% or 8% stock. But two very plausible objections may be urged against this argument. First, Pitt's loans bore 5%, when considered in the light of the money actually advanced. Secondly, ought bonds be placed at a low interest and consequently at ruinous discounts simply for the sake of relieving the present generation from taxes, and throw the main burden upon the future. Now it requires but very little argument to show that in the end a loan at a high rate of interest and at par is more economical than one placed in exactly the opposite manner. That he fully recognized the importance of this principle, even though the theory of amortization was but incompletely developed, appears from his own words. In his speech of 1794 Pitt gave utterance to the following: "It was always my idea that a fund at ^a high rate of interest, is better to the country than those at low rates; that 4% is preferable to 3% and 5% to 4%. The reason is that in all operations of finance we should always have in view a plan of redemption. Gradually to redeem and to extinguish our debt ought ever ^{to} be the wise pursuit of government. Every scheme operation of finance should be directed to that end and should be managed with that in view. # But in spite of this well meaning statement up to 1801 two thirds of his loans were funded in 3% stock. The reasons for thus departing from this well founded principle seem to have been three: first, that his power for placing securities were not ample enough; #Levi p.92.

secondly, a low rate of interest was exactly in harmony with his theory of taxation, and lastly, the great bulk of existing obligations created before Pitt bore 3% interest and the minister followed the example for the sake of uniformity. None of these, however, afford sufficient reason for permitting them to offend against the canon of economy. Economy should be as much a part of the policy of a public man as of a private individual. Mr. Pitt then, instead of funding in 3% stock should have funded in 7%, 8%, or 9% stock, which would not only have been readily taken up, but could also have been converted into much lower stock at the close of the war, as happened in the United States after 1868. But with a 3% stock no reduction was possible. But there is still another objection to his scheme of funding, and that is the time in which loans were contracted. The two largest loans as has been shown were made, when public credit stood at its lowest point, while in 1794 but L4500000 was borrowed. For every L72 advanced the lender got L100, 3% stock; a loan of 6%, therefore, could have been placed somewhere near par. Mr. Pitt, therefore, should have made a large loan right in the beginning of the war. That the minister should have met the French war with the same promptness with which he met the Nootka Sound Armament needs no explanation. Mr. Pitt's laudable ambition was to make England the strongest power in Europe. She already possessed this supremacy in a commercial way, but politically it was still disputed, especially by France. Ought not then, a nation aspiring to such leadership especially when the struggle for the balance of power is keen hold it self in readiness, even though the future be hidden from her view? Did Mr. Pitt know that the controversy of the

Nootka Sound Armament would turn out to be but a political squabble; and yet he met it with such promptness? No, the future lay before him veiled in darkness, but this is at the same time ^{is} the strongest argument in favor of it.

We have now come to the end of our discussion. For the sake of refreshing our memories let us summarize briefly the principal facts of Pitt's administration. The reader no doubt will recall the minister's attitude toward taxation, and how the tendency for abolishing taxes almost grew into a passion. This no doubt prevented the minister from establishing an adequate fiscal system; whereas the old one possessed neither scope nor elasticity. The minister, however, placed such firm confidence in it that even for the next three years after war had been declared no new sources were opened. Far more striking however is his funding system, and the fact of making loans contrary to his own views. But here the same tendency is visible. We must conclude therefore that Mr. Pitt's cardinal principle was to impose the least possible amount of taxation in order to win favor in the eyes of the public. It explains at once his strict economy in peace and his failure to establish a proper fiscal system. It explains, furthermore, why no new sources were opened until 1796, when the legacy duties were first imposed; why he was in a desperate position, as soon as it became clear that this war was likely to continue for some time. It also throws light upon Pitt's funding system, and why he was at the mercy of the lenders. This conclusion moreover, is confirmed by his own words. By 1792 this policy had come to full fruition. In this year he abolished several taxes, and held out

the most encouraging prospects of repealing still more within the next fifteen years."For although,"he said,"we must not count with certainty on the continuance of our oresent prosperity,yet unquestionably there never was a time in our history, that from the situation of Europe we might more erasonably expect fifteen years of peace than we may at the present moment."

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